

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Central State Bank, Muscatine, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **September 16, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated Satisfactory.

Central State Bank actively promotes economic revitalization and growth, consistent with its size, financial capacity, location, and assessment area's current economic conditions. The bank's efforts are accomplished primarily through the origination of loans to individuals, and commercial and industrial entities. Approximately 73% of the bank's total loan portfolio was either secured by property located within the bank's assessment area, or (regarding consumer loans) made to borrowers with addresses within the assessment area. The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income). The bank's current level of lending activity, however, indicates that the bank has the capacity to increase its lending volume within its assessment area. There is no evidence of prohibited discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank. No complaints were received by the bank regarding its CRA performance since the previous examination.

The following table indicates the performance level of **Central State Bank, Muscatine, Iowa** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	CENTRAL STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	There are no low- or moderate-income census tracts or BNAs in the assessment area.		
Response to Complaints	No complaints were received since the previous examination		

DESCRIPTION OF INSTITUTION

Central State Bank, with total assets of \$233 million as of June 30, 1996, is a subsidiary of Central Bancshares, Inc., a multi-bank holding company. In addition to its main office, the bank operates three branches, all located in Muscatine. The bank is currently constructing a walk-up facility located adjacent to the main office. Loan applications are available at each bank office, and the underwriting decision (within lending limits) is made at the branch where the application is taken. The loan processing function and bank operations are centralized at the main office.

According to the June 30, 1996 Uniform Bank Performance Report, the bank's largest portfolio holding is loans to individuals, comprising 30.36% of the bank's loan mix and placing the bank at the 89th percentile compared to its peers. The bank's peer group is considered to be all insured commercial banks having assets between \$100 million and \$300 million with three or more banking offices, and located in a nonmetropolitan area. The bank's second largest portfolio holding is commercial and industrial loans, comprising 23.98% of the bank's loan mix and placing the bank at the 86th percentile compared to its peers. The credit products offered by the bank are consistent with the credit needs in the assessment area. There are no apparent factors relating to the bank's financial condition and size, or local economic conditions that would prevent the bank from meeting community credit needs.

The bank's primary competitors include: First National Bank of Muscatine, Community Bank (Muscatine), Hon-Industries Credit Union (Muscatine), Mercantile Bank, FSB (Davenport) and Alcoa Employees Credit Union (Bettendorf).

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank and its three branch offices are located in the City of Muscatine, Iowa, which is the county seat of Muscatine County. The city is located on the western bank of the Mississippi River, approximately 20 miles southwest of the Quad Cities. The assessment area includes all of Muscatine County, Iowa; four townships in northwestern Mercer County, Illinois (Eliza West, Eliza East, New Boston West and New Boston East) and three townships in southwestern Rock Island County, Illinois (Drury West, Drury East and Buffalo Prairie). The bank's assessment area is comprised of 11 block numbering areas (BNAs) and one census tract, none of which are considered to be low- or moderate-income, nor substantially minority. Although the portion of the bank's assessment area in Rock Island County, Illinois falls within a Metropolitan Statistical Area (MSA), the bank has no offices located in the MSA.

Since the previous examination, the assessment area has been changed to consist only of whole geographies. The bank maintains four full-service automated teller machines (ATMs) located within its assessment area.

According to 1990 census data, the population of the bank's defined assessment area is 47,907.

Individuals of Hispanic origin comprise the largest percentage of the minority population in the assessment area (6.1%), while all minorities together comprised 7.1% of the population.

Muscatine is the only major population center within the bank's assessment area. The census data also reveals the assessment area had a median family income of \$33,735, compared to a median family income of \$29,303 for the nonmetropolitan portions of the State of Iowa and \$29,694 for the nonmetropolitan portions of the State of Illinois. Approximately 31% of the families within the assessment area have incomes that are considered low and moderate. There are a total of 19,628 housing units in the assessment area, with 13,065 or 66.6% owner-occupied units and 4,846 or 24.7% rental-units. The median age of the housing stock in the assessment area is 41 years.

Muscatine's proximity to the Mississippi River plays a major role in its economy, with the river being utilized as a source of transportation, as well as a contributing factor to the area's fertile soil and production of high quality agricultural products. The local economy is also supported by two Fortune 500 companies and over 60 manufacturing operations employing approximately 6,333 people. Major employers in the area include:

<u>Name of Employer</u>	<u>Product-Service/Number of Employees</u>
H O N Co.	Steel Office Furniture/1,465
Grain Processing Corp.	Food and Pharmaceutical Ingredients/800
Bandag, Inc.	Tire Retreading Equipment & Retread Rubber/778
Monsanto Company	Herbicides & Plastics/500
Heinz, USA	Food Processing/500
The Prime Mover Company	Material Handling Equipment/300
Thatcher Tubes	Plastic Squeeze Tubes/300
Kent Feeds, Inc.	Feed & Supplements/256

According to the Iowa Department of Employment Services, as of June 1996, the unemployment rate for the United States was 5.3%, compared to 3.1% for the State of Iowa was, and 4.2% for Muscatine County. A comparison with June 1995 figures showed that the unemployment rate for the United States decreased 0.3% from 5.6%, and the unemployment rate for the State of Iowa decreased 0.4% from 3.5%. The unemployment rate in Muscatine

County, however, increased 0.8% from 3.4% since June 1995. Community representatives

attributed the increase to a reduction of staff at two local companies; this has affected the work force by approximately 100 people.

According to the Illinois Department of Employment Security, as of June 1996, the unemployment rate for the State of Illinois was 5.5%; Mercer County was 5.2% and Rock Island County was 4.8%. A comparison with June 1995 figures showed that the unemployment rate for the State of Illinois increased 0.2% from 5.3%; Mercer County's rate increased 0.3% from 4.9% and Rock Island County decreased 0.4% from 5.2%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending activities. The examination revealed that the institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No lending patterns or practices intended to discourage loan applications were detected during the examination.

Loan-to-Deposit Ratio Analysis

An analysis of the bank's Consolidated Reports of Condition since the previous examination revealed the following:

Quarter Ending	Loan-to-Deposit Ratio
June 30, 1996	53.47%
March 31, 1996	52.55%
December 31, 1995	49.17%
September 30, 1995	50.31%
June 30, 1995	51.93%
March 31, 1995	51.54%
Average	51.50%

The six-quarter review period disclosed an average loan-to-deposit ratio of 51.50%. This ratio is lower than the average ratio for the bank's peer group (as of 6/30/96) which was 71.46%. The bank's performance placed it in the 12th percentile compared with its peers.

Loan-to-Deposit (LTD) Ratios of Competitors		
	Assets	

Loan-to-Deposit (LTD) Ratios of Competitors		
Name of Competition		LTD Ratio
First National Bank of Muscatine	\$188,301,000 (Spring 1996)	73.19% (Average of Fall 1995 and Spring 1996 LTDs)
Community Bank	\$48,091,000 (Spring 1996)	55.78% (Average of Fall 1995 and Spring 1996 LTDs)
Hon-Industries Credit Union	\$20,023,000	72.98%
Mercantile Bank, FSB	\$391,729,000	107.38%
Alcoa Employees Credit Union	\$54,816,000	80.47%

Source: McFadden American Financial Directory

As the preceding chart illustrates, the bank's average loan-to-deposit ratio of 51.50% is lower than those of the bank's competitors. First National Bank of Muscatine, Community Bank and Hon-Industries Credit Union are all based in Muscatine. Mercantile Bank, FSB and Alcoa Employees Credit Union, however, are branch offices of financial institutions based outside of Muscatine and their loan-to-deposit ratios shown above include lending outside the Muscatine area.

Community representatives view Central State Bank as the most conservative financial institution in Muscatine. During the review period, the bank's net loans increased 5.43% (as a percentage of the bank's total loan portfolio), while the bank's total deposits increased 1.63% (as a percentage of the bank's total deposits). They indicated that over the past several years the bank has taken a more risk oriented view of lending. Community representatives attributed the change in lending philosophy to a change in the bank's leadership. Management stated that the bank is making every effort to increase its lending, within safe and sound lending practices. The bank's loan-to-deposit ratio is considered to meet the standards for satisfactory performance, given the bank's size, financial condition, and assessment area credit needs.

Lending in Assessment Area

The bank's total loan portfolio as of August 31, 1996 was reviewed. This data revealed that \$77,359,375 of the total \$105,435,439 outstanding loans or 73.37% were either secured by property located within the bank's assessment area, or (regarding consumer loans) made to borrowers with addresses within the assessment area.

The examination loan sample (July, 1996 loans) was reviewed regarding lending activity within the assessment area. The examination loan sample revealed the following:

Loan Type	Total Number of Loans Sampled	Number within Assessment Area	Percent of Total
Consumer (Direct)	36	17	47.22%
Consumer (Indirect)	20	19	95.00%
Single Payment	20	19	95.00%
Home Equity Lines	10	8	80.00%
Credit Cards	16	15	93.75%
Consumer Real Estate	12	11	91.67%
Commercial	20	15	75.00%
Other Open-End	1	1	100.00%
Total Originations	135	105	77.78%

As the preceding chart illustrates, 77.78% of the sampled loans were made within the bank's assessment area. The loan sample further supports the fact that a substantial majority of the bank's loan activity is within the assessment area. Based upon this review and the information provided by management, the bank exceeds the standards for satisfactory performance in relation to loan originations within its assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Two analyses were conducted regarding the bank's lending activity, based upon borrower income classifications, to ascertain whether loans were originated throughout different income levels. The first analysis was of the examination loan sample, and the second analysis was of all consumer real estate loans and loans to individuals made during the six-month period prior to the examination. The results of both analyses indicated that 16.20% of the families within the assessment area have low-income, 14.94% have moderate-income, 22.74% have middle-income, and 46.12% have upper-income.

The analysis of the examination loan sample revealed the following:

Loan Type	Low-Income \$/Number	Moderate-Income \$/Number	Middle-Income \$/Number	Upper-Income \$/Number
Consumer (Direct)	\$4,612/2	\$69,839/8	\$35,229/4	\$152,313/19
Consumer (Indirect)	\$8,866/1	\$60,201/6	\$47,896/3	\$147,883/10
Single Payment	\$1,051/1	\$24,783/8	\$16,164/6	\$8,243/5
Home Equity	\$0/0	\$0/0	\$25,000/1	\$176,500/9

Loan Type	Low-Income \$/Number	Moderate-Income \$/Number	Middle-Income \$/Number	Upper-Income \$/Number
Lines				
Credit Cards	\$8,000/4	\$7,000/5	\$4,000/2	\$10,500/4
Consumer Real Estate	\$19,050/1	\$182,700/4	\$97,200/2	\$308,444/5
Total Originations	\$41,579/9	\$344,523/31	\$225,489/18	\$803,883/52

The loan sample revealed that 40 or 36.36% of the 110 sampled loans were granted to low- and moderate-income borrowers, and that \$386,102 or 27.28% of the total dollar volume in the sample was granted to low- and moderate-income borrowers. This lending activity compares favorably with census data which indicates that low- and moderate-income families comprise 31.14% of the assessment area's population.

A review of all consumer real estate loans (purchases and refinancings) and all consumer loans to individuals (Visa, Mastercard, mobile home, automobile, and personal unsecured) originated by the bank during the six-month period prior to the examination revealed the following distribution among borrowers of different incomes:

Loan Type	Low-Income \$/Number	Moderate-Income \$/Number	Middle-Income \$/Number	Upper-Income \$/Number
Consumer Real Estate	\$0/0	\$388,470/10	\$258,750/5	\$3,602,953/46
Consumer Loans to Individuals	\$187,156/50	\$308,769/55	\$159,933/19	\$374,865/43
Total Originations	\$187,156/50	\$697,239/65	\$418,683/24	\$3,977,818/89

The six-month loan sample revealed that 115 or 50.44% of the 228 loans were granted to low- and moderate-income borrowers. This lending activity compares favorably with census data which indicates that low- and moderate-income families comprise 31.14% of the assessment area's population.

Central State Bank is a participant in a program in the City of Muscatine Scattered Site Public Housing program for low-income families. The City provides a silent second mortgage which is sufficient to preclude the need for a down payment. Eligible families choose their participating mortgage lender, and lenders are responsible for making their own underwriting decisions. Central State Bank has allocated \$200,000 for mortgage loan financing with no origination or discount points and minimal closing costs. As of this examination, Central State Bank has financed four loans for \$119,500 or 31% of the total loans originated through the program.

A review of the bank's June 1994, 1995, and 1996 Consolidated Reports of Condition showed the

following trends regarding the number of loans outstanding to small businesses and small farms:

Loans Outstanding to Small Businesses	1994	1995	1996
Loans Secured by Nonfarm Nonresidential Property	25	26	41
Commercial and Industrial Loans	223	189	229

As the preceding chart illustrates, the bank's level of outstanding loans secured by nonfarm nonresidential property has increased by 16 loans or 64% since 1994. The bank's level of commercial and industrial loans to small businesses has been relatively stable since 1994. Management stated that the bank has been successful in its attempt to increase its lending to small businesses; however, commercial and industrial lending has been more difficult to increase.

Agricultural Loans Outstanding to Small Farms	1994	1995	1996
Loans Secured by Farmland	37	38	50
Loans to Finance Agricultural Production and other Loans to Farmers	390	333	349

As the preceding chart illustrates, the bank's level of outstanding loans secured by farmland has increased by 13 loans or 35.14% since 1994. Management stated that the bank's more aggressive lending policy has been responsible for this increase. The bank's level of outstanding loans to finance agricultural production and other loans to farmers has declined by 41 loans or 10.51% since 1994. Management attributed this decline to fluctuations in agricultural lending, that are consistent with the nature of the industry.

The examination loan sample, the six-month review of consumer real estate and individual loans, and the bank's participation with the City of Muscatine's Scattered Site Public Housing program have resulted in excellent penetration among individuals of different income levels (including low- and moderate-income). The bank's performance regarding the number of loans outstanding to small businesses and small farms exceeds the standards for satisfactory performance under this criterion.

Geographic Distribution of Credit Within the Assessment Area

As discussed under the Assessment Area Profile, the assessment area is comprised of 11 BNAs and one census tract. All of the BNAs are considered middle- or upper-income, with no areas of the bank's assessment area considered low- or moderate-income. Because there are no low- or moderate-income geographies within the assessment area, in which lending could be analyzed, this criterion is not rated.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.